

KIMBALL SCHOOL DISTRICT NO. 7-2

AUDIT REPORT

JUNE 30, 2009

KIMBALL SCHOOL DISTRICT NO. 7-2
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

School Board
Kimball School District No. 7-2
Brule County, South Dakota

I have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of Kimball School District No. 7-2, Brule County, South Dakota, as of and for the fiscal year ended June 30, 2009 which collectively comprise Kimball School District's financial statements, and have issued my report thereon dated August 19, 2009. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered Kimball School District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control. I consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. These are numbered 2009-01 and 2009-03.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School District's internal control.

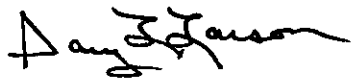
My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, according, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that the significant deficiencies described above are a material weakness. See finding number 2009-01 and 2009-03.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kimball School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed one instance of noncompliance that is required to be reported under Government Auditing Standards. See finding number 2009-03 in the accompanying schedule of findings and questioned costs.

The School District's response to the findings identified in my audit is described in the accompanying schedule of current audit findings. I did not audit the School District's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the South Dakota Legislature, the governing board and management of Kimball School District No. 7-2 and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Doug Larson". The signature is fluid and cursive, with a large initial "D" and a stylized "L".

August 19, 2009

Gary L. Larson, CPA

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(605) 940-1284

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

School Board
Kimball School District No. 7-2
Brule County, South Dakota

Compliance:

I have audited the compliance of Kimball School District No. 7-2, Brule County, South Dakota with types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the fiscal year ended June 30, 2009. Kimball School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Kimball School District's management. My responsibility is to express an opinion on Kimball School District's compliance based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments and Non-profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kimball School District's compliance with those requirements and performing such other procedures, as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Kimball School District's compliance with those requirements.

In my opinion, Kimball School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control over Compliance:

The management of Kimball School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered Kimball School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing an opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the School District's internal control over compliance.

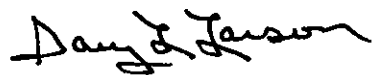
My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the School District's weaknesses as defined below. However, as discussed below, I identified certain deficiencies in internal control over compliance that I consider to be significant deficiencies and material weaknesses.

A control deficiency in the School District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirements of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the School District's internal control. I consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2009-02 to be a material weakness.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the School District's internal control. Of the significant deficiencies in the internal control over compliance described in the accompanying schedule of findings and questioned costs, I consider item number 2009-02 to be a material weakness.

The Kimball School District's response to the findings identified in my audit are described in the accompanying schedule of findings and questioned costs. I did not audit the School District's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of federal awarding agencies and pass-through entities, the South Dakota Legislature, the governing board and management of Kimball School District No. 7-2 and is not intended to be and should not be used by anyone other than those specified parties. However, as required by South Dakota Codified Law 4-11-11 and OMB Circular A-133 Section .320, this report is a matter public record and its distribution is not limited.

A handwritten signature in cursive script, appearing to read "David L. Jensen".

August 21, 2009.

Gary L. Larson, CPA

900 Winchester Drive
Pierre, SD 57501
(605) 940-1284

INDEPENDENT AUDITOR'S REPORT

School Board
Kimball School District No. 7-2
Brule County, South Dakota

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and aggregate remaining fund information of Kimball School District No. 7-2, Brule County, South Dakota, as of June 30, 2009, and for the fiscal year then ended, which collectively comprise the School District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of Kimball School District's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, I do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the Kimball School District No. 7-2 as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued a report dated August 19, 2009 on my consideration of Kimball School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

My audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Kimball School District No. 7-2 basic financial statements taken as a whole. The schedule of expenditures of federal awards is required by U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-profit Organizations is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly presented in all material respects in relation to the finance statements taken as a whole.

The Kimball School District No. 7-2 has not presented the Management's Discussion and Analysis (MD&A) and Budgetary Comparison Schedules for the General and Special Revenue Funds that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.



August 19, 2009

KIMBALL SCHOOL DISTRICT NO. 7-2
STATEMENT OF NET ASSETS
JUNE 30, 2009

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and cash equivalents	\$1,617,484	\$15,706	\$1,633,190
Taxes receivables	555,878	0	555,878
Accounts receivable	99,823	9,121	108,944
Inventory	18,225	675	18,900
Other assets	11,370	0	11,370
Capital Assets:			
Land	21,825	0	21,825
Other capital assets, net of depreciation	3,952,167	17,143	3,969,310
TOTAL ASSETS	\$6,276,772	\$42,645	\$6,319,417
LIABILITIES:			
Accounts payable	\$51,000	\$0	\$51,000
Other current liabilities	188,845	0	188,845
Deferred revenue	553,642	0	553,642
Noncurrent Liabilities:			
Due within one year	174,327	0	174,327
Due in more than one year	958,334	0	958,334
TOTAL LIABILITIES	1,926,148	0	1,926,148
NET ASSETS:			
Invested in capital assets, net of related debt	2,863,879	17,143	2,881,022
Restricted For:			0
Capital outlay	452,283	0	452,283
Special education	74,182	0	74,182
Food service	0	25,502	25,502
Unrestricted	960,280	0	960,280
TOTAL NET ASSETS	4,350,624	42,645	4,393,269
TOTAL LIABILITIES AND NET ASSETS	\$6,276,772	\$42,645	\$6,319,417

The accompanying notes to financial statements
are an integral part of this statement.

Component Unit
\$8,074
0
0
0
0
0
0
0
<u>0</u>
<u>\$8,074</u>
\$0
0
0
0
0
0
<u>0</u>
<u>0</u>
0
0
0
0
8,074
<u>8,074</u>
<u>\$8,074</u>

KIMBALL SCHOOL DISTRICT NO. 7-2
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

Functions/Programs	Expenses	PROGRAM REVENUES	
		Charges for Services	Operating Grants and Contributions
PRIMARY GOVERNMENT			
Governmental Activities:			
Instruction	\$1,604,954	\$71,020	\$513,327
Support services	916,593	0	45,000
Community services	23,101	0	0
Interest on long-term debt*	33,103	0	0
Cocurricular activities	157,530	50,519	0
Total Governmental Activities	2,735,281	121,539	558,327
Business-type Activities:			
Food service	160,995	50,640	114,027
TOTAL PRIMARY GOVERNMENT	\$2,896,276	\$172,179	\$672,354
Cocurricular Activities	\$0	\$0	\$0

* The District does not have interest expense related to the functions presented above. This amount represents indirect interest expense on general long-term debt.

GENERAL REVENUES:

Real estate taxes
Gross receipt taxes
State aid
Unrestricted investment earnings
Other general revenues

Total general revenues

Change in net assets
Net assets, beginning,
as previously reported
Correction (Note 12)
Net assets, beginning

NET ASSETS-ending

The accompanying notes to financial statements
are an integral part of this statement.

NET (EXPENSE) REVENUE AND
CHANGES IN NET ASSETS

Governmental Activities	Business-type Activities	Total	Component Unit
(\$1,020,607)	\$0	(\$1,020,607)	\$0
(871,593)	0	(871,593)	0
(23,101)	0	(23,101)	0
(33,103)	0	(33,103)	0
(107,011)	0	(107,011)	0
(2,055,415)	0	(2,055,415)	0
0	3,672	3,672	0
(2,055,415)	3,672	(2,051,743)	0
0	0	0	0
1,081,575	0	1,081,575	0
89,419	0	89,419	0
957,437	0	957,437	0
42,450	0	42,450	106
66,278	0	66,278	0
2,237,159	0	2,237,159	106
181,744	3,672	185,416	106
4,143,387	38,973	4,182,360	7,968
25,493	0	25,493	0
4,168,880	38,973	4,207,853	7,968
\$4,350,624	\$42,645	\$4,393,269	\$8,074

KIMBALL SCHOOL DISTRICT NO. 7-2
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

	General Fund	Capital Outlay Fund	Special Education Fund
ASSETS:			
Cash and cash equivalents	\$1,036,595	\$456,502	\$110,143
Imprest account	10,000	0	0
Taxes receivable-current	296,954	166,638	81,290
Taxes receivable-delinquent	6,224	3,414	1,358
Due from other governments	99,823	0	0
Inventory of supplies	18,225	0	0
TOTAL ASSETS	<u><u>\$1,467,821</u></u>	<u><u>\$626,554</u></u>	<u><u>\$192,791</u></u>
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	\$34,222	\$7,633	\$9,145
Contracts payable	132,791	0	15,355
Payroll deductions and withholding and employer matching payable	31,842	0	4,059
Deferred revenue	303,178	170,052	91,408
TOTAL LIABILITIES	<u>502,033</u>	<u>177,685</u>	<u>119,967</u>
Fund balances:			
Reserved for inventory	18,225	0	0
Unreserved:			
Designated for FY '10 budget	356,556	0	0
Undesignated	591,007	448,869	72,824
TOTAL FUND BALANCE	<u>965,788</u>	<u>448,869</u>	<u>72,824</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$1,467,821</u></u>	<u><u>\$626,554</u></u>	<u><u>\$192,791</u></u>

The accompanying notes to financial statements are an integral part of this statement

Total
Governmental
Funds

\$1,603,240

10,000

544,882

10,996

99,823

18,225

\$2,287,166

\$51,000

148,146

35,901

564,638

799,685

18,225

356,556

1,112,700

1,487,481

\$2,287,166

KIMBALL SCHOOL DISTRICT NO. 7-2
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT
OF NET ASSETS
JUNE 30, 2009

Total Fund Balances-Government Funds	\$1,487,481
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	3,973,992
Long-term liabilities, including accrued leave payable are not due and payable in the current period and therefore are not reported in the funds.	(1,132,661)
Prepaid insurance is recorded as an asset in the statement of net assets, but is recorded as an expenditure for the funds.	11,370
Assets such as taxes receivable are not available to pay for current period expenditures and therefore are deferred in the funds.	10,996
Accrued interest payable is not recorded in the funds but is accrued for the statement of net assets.	(4,798)
Internal service funds are used by management to charge the costs of activities, such as insurance, to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.	<u>4,244</u>
Net Assets-Governmental Funds	<u><u>\$4,350,624</u></u>

The accompanying notes to financial statements are an integral part of this statement.

KIMBALL SCHOOL DISTRICT NO. 7-2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	General Fund	Capital Outlay Fund	Special Education Fund
Revenues:			
Revenues from Local Sources:			
Taxes:			
Ad valorem taxes	\$571,099	\$336,041	\$167,698
Prior year's ad valorem taxes	716	310	129
Gross receipts taxes	89,419	0	0
Penalties and interest	830	500	240
Earnings on deposits:			
Interest earned	26,733	15,717	0
Cocurricular activities:			
Admissions	27,612	0	0
Other	22,907	0	0
Other revenues from local sources:			
Sale of student built house	71,020	0	0
Contributions	4,114	45,000	0
Other	31,421	2,958	1,084
Revenues from Intermediate Sources:			
County Sources:			
County apportionment	26,701	0	0
Revenues from State Sources:			
Grants-in-aid:			
Unrestricted grants-in-aid	957,437	0	0
Revenues from Federal Sources:			
Grants-in-aid:			
Restricted grants-in-aid received from federal government through state	450,390	0	62,937
Total Revenue	<u>\$2,280,399</u>	<u>\$400,526</u>	<u>\$232,088</u>

The accompanying notes to financial statements are an
integral part of this statement.

Total
Governmental
Funds

\$1,074,838

1,155

89,419

1,570

42,450

27,612

22,907

71,020

49,114

35,463

26,701

957,437

513,327

\$2,913,013

KIMBALL SCHOOL DISTRICT NO. 7-2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	General Fund	Capital Outlay Fund	Special Education Fund
Expenditures:			
Instruction:			
Regular Programs:			
Elementary	\$583,819	\$0	\$0
High school	658,334	22,639	0
Other	11,888	0	0
Special Programs:			
Programs for special education	0	0	122,780
Educationally deprived	108,240	0	0
Support Services:			
Pupils-			
Attendance and social work	3,914	0	0
Guidance	28,576	0	0
Health	1,181	0	0
Psychological	0	0	25,412
Speech pathology	0	0	30,604
Student therapy	0	0	27,272
Instructional staff-			
Improvement of instruction	29,261	0	0
Educational media	39,607	8,770	0
General administration-			
Board of education	29,906	0	0
Executive administration	113,097	0	0
School administration-			
Office of principal	84,295	0	0
Other	4,500	0	9,056
Business-			
Fiscal services	75,026	0	0
Operation and maintenance of plant	248,729	14,184	0
Pupil transportation	105,747	0	0
Community Services:			
Custody and care of children	23,101	0	0

Total
Governmental
Funds

\$583,819

680,973

11,888

122,780

108,240

3,914

28,576

1,181

25,412

30,604

27,272

29,261

48,377

29,906

113,097

84,295

13,556

75,026

262,913

105,747

23,101

KIMBALL SCHOOL DISTRICT NO. 7-2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	General Fund	Capital Outlay Fund	Special Education Fund
Debt Service	\$0	\$434,189	\$0
Cocurricular activities:			
Male activities	33,830	0	0
Female activities	32,835	0	0
Transportation	19,841	0	0
Combined activities	47,495	0	0
Capital outlay	0	263,765	0
Total Expenditures	<u>2,283,222</u>	<u>743,547</u>	<u>215,124</u>
Net Change in Fund Balances	<u>(2,823)</u>	<u>(343,021)</u>	<u>16,964</u>
FUND BALANCE, JULY 1, 2008, as previously reported	943,118	791,890	55,860
Correction (Note 12)	<u>25,493</u>	<u>0</u>	<u>0</u>
FUND BALANCE, JULY 1, 2008, as restated	<u>968,611</u>	<u>791,890</u>	<u>55,860</u>
FUND BALANCE, JUNE 30, 2009	<u><u>\$965,788</u></u>	<u><u>\$448,869</u></u>	<u><u>\$72,824</u></u>

The accompanying notes to financial statements are an
integral part of this statement.

Total
Governmental
Funds

\$434,189

33,830

32,835

19,841

47,495

263,765

3,241,893

(328,880)

1,790,868

25,493

1,816,361

\$1,487,481

KIMBALL SCHOOL DISTRICT NO. 7-2
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

Net Changes in Fund Balances-Total Governmental Funds (\$328,880)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 106,904

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 396,471

The statement of activities reports the change in accrued interest payable as an expense. 4,615

Government funds report property taxes as revenue when cash is received, or within a 60 day period after year-end, to the extent they were intended to finance the current year but the statement of activities includes the property taxes as revenue when earned for the year they were intended to finance. 4,012

The statement of activities reports the change in prepaid insurance as an expense. 563

Governmental funds do not reflect the change in accrued leave, but the statement of activities reflects the change in accrued leave through expenditures. (1,941)

Change in Net Assets of Governmental Activities \$181,744

The accompanying notes to financial statements are an integral part of this statement.

KIMBALL SCHOOL DISTRICT NO. 7-2
BALANCE SHEET-PROPRIETARY FUNDS
JUNE 30, 2009

	<u>ENTERPRISE FUNDS</u>	
	<u>Food Service Fund</u>	<u>Internal Service Funds</u>
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$15,706	\$4,244
Due from other governments	\$9,121	
Inventory of supplies	68	0
Inventory of stores purchased for resale	100	0
Inventory of donated food	507	0
Total Current Assets	<u>25,502</u>	<u>4,244</u>
Noncurrent Assets:		
Capital Assets:		
Machinery and equipment	37,586	0
Accumulated depreciation	(20,443)	0
Total Noncurrent Assets	<u>17,143</u>	<u>0</u>
TOTAL ASSETS	<u><u>\$42,645</u></u>	<u><u>\$4,244</u></u>
LIABILITIES	<u>\$0</u>	<u>\$0</u>
NET ASSETS:		
Invested in capital assets	17,143	0
Unrestricted net assets	<u>25,502</u>	<u>4,244</u>
Total Net Assets	<u>42,645</u>	<u>4,244</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$42,645</u></u>	<u><u>\$4,244</u></u>

The accompanying notes to financial statements are an
integral part of this statement.

KIMBALL SCHOOL DISTRICT NO. 7-2
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	ENTERPRISE FUNDS	
	Food Service Fund	Internal Service Funds
Operating Revenue:		
Sales:		
To pupils	\$44,401	\$0
To adults	6,239	0
Total Operating Revenue	<u>50,640</u>	<u>0</u>
Operating Expenses:		
Food services:		
Salaries	36,729	0
Employee benefits	9,565	0
Purchased services	40,811	0
Supplies	3,770	0
Cost of sales-purchased food	57,935	0
Cost of sales-donated food	10,145	0
Depreciation	2,040	0
Total Operating Expenses	<u>160,995</u>	<u>0</u>
Operating Income (Loss)	<u>(110,355)</u>	<u>0</u>
Nonoperating Revenue (Expense):		
State Sources:		
Cash reimbursements	784	0
Federal Sources:		
Cash reimbursements	103,940	0
Donated food	9,303	0
Total Nonoperating Revenue (Expense)	<u>114,027</u>	<u>0</u>
Change in Net Assets	<u>3,672</u>	<u>0</u>
Net Assets-beginning	<u>38,973</u>	<u>4,244</u>
NET ASSETS-ending	<u>\$42,645</u>	<u>\$4,244</u>

The accompanying notes to financial statements are an
integral part of this statement.

KIMBALL SCHOOL DISTRICT NO. 7-2
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	ENTERPRISE FUNDS	
	Food Service Fund	Internal Service Funds
Cash Flows from Operating Activities:		
Receipts from customers	\$50,640	\$0
Payments to suppliers	(102,448)	0
Payments to employees	(46,294)	0
Net Cash Provided (Used) by Operating Activities	(98,102)	0
Cash Flows from Noncapital Financing Activities:		
Operating subsidiaries	101,770	0
Net Increase in Cash and Cash Equivalents	\$3,668	\$0
Cash and Cash Equivalents at Beginning of Year	\$12,038	\$4,244
Cash and Cash Equivalents at End of Year	15,706	4,244
Net Increase in Cash and Cash Equivalents	\$3,668	\$0

The accompanying notes to financial statements are an
integral part of this statement.

KIMBALL SCHOOL DISTRICT NO. 7-2
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	<u>ENTERPRISE FUNDS</u>	
	Food Service Fund	Internal Service Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income (Loss)	(\$110,355)	\$0
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation expense	2,040	0
Commodities used	10,145	0
Changes in Assets and Liabilities:		
Inventories	<u>68</u>	<u>0</u>
Net Cash Provided (Used) by Operating Activities	<u>(\$98,102)</u>	<u>\$0</u>
Noncash Investing, Capital and Financing Activities:		
Value of commodities received	<u>\$9,303</u>	<u>\$0</u>

The accompanying notes to financial statements
are an integral part of this statement.

KIMBALL SCHOOL DISTRICT NO. 7-2
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
JUNE 30, 2009

	Private-purpose Trust Funds	Agency Funds
ASSETS:		
Cash and cash equivalents	\$78,848	\$82,675
Total Assets	<u>\$78,848</u>	<u>\$82,675</u>
LIABILITIES:		
Amounts held for others	\$0	\$82,675
NET ASSETS:		
Held in trust for scholarships	<u>78,848</u>	<u>0</u>
Total Liabilities and Net Assets	<u>\$78,848</u>	<u>\$82,675</u>

The accompanying notes to financial statements are an
integral part of this statement.

KIMBALL SCHOOL DISTRICT NO. 7-2
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
FOR YEAR ENDED JUNE 30, 2009

	<u>Private-purpose Trust Funds</u>
ADDITIONS:	
Contributions and donations	\$3,000
Interest	<u>8,439</u>
Total Additions	<u>11,439</u>
DEDUCTIONS:	
Trust deductions for scholarships	<u>12,245</u>
Total Deductions	<u>12,245</u>
Change in Net Assets	(806)
Net Assets-beginning	<u>79,654</u>
NET ASSETS-ending	<u><u>\$78,848</u></u>

The accompanying notes to financial statements are an
integral part of this statement.

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the school district conform to generally accepted accounting principles applicable to government entities in the United States of America.

a. Financial Reporting Entity:

The reporting entity of Kimball School District No. 7-2, consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Financial statements of the Kimball Public Schools Foundation, Incorporated are presented in the accompanying financial statements under "component unit".

The component unit is a nonprofit organization formed to raise funds for special recreation projects of the school district. The governing board is composed of the school district superintendent, business manager, board members and two alumni.

The criteria for including the component unit in the financial reporting entity is that of control. Since the majority of the directors are either School District employees or board members. The School District has control over the decisions of the Foundation. The component unit is reported using the accrual basis of accounting.

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Separate financial statements for the component unit can be obtained from the Kimball School District by calling (605)778-6231.

The school district participates in a cooperative service unit with eleven other school districts. See detailed note entitled "Joint Ventures" for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the district.

b. Basis of Presentation, Basis of Accounting:

Basis of Presentation:

Government-wide Statements: The Statement of Net Assets and the Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity, except for fiduciary funds. The statements distinguish between the *governmental and business-type activities* and discretely presented component units. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Discretely presented component units are legally separate organizations that meet certain criteria, as described in Note 1a, above, and may be classified as either governmental or business-type activities. See the discussion of individual component units in Note 1a, above.

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Statement of Net Assets reports all financial and capital resources, in a net assets form (assets minus liabilities equal net assets). Net assets are displayed in three components, as applicable, invested in capital assets net of related debt, restricted (distinguishing between major categories of restrictions), and unrestricted.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District and for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the School District financial reporting entity are described below within their respective fund types:

Governmental Funds:

General Fund - A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the school district, excluding capital outlay fund and special education fund expenditures. The General Fund is always a major fund.

Special Revenue Fund Types - special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Capital Outlay Fund - A fund established by SDCL 13-16-6 to meet expenditures which result in the lease of, acquisition of or additions to real property, plant or equipment, textbooks and instructional software. The fund is financed by property taxes. This is a major fund.

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 .

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Special Education Fund - A fund established by SDCL 13-37-16 to pay the costs for the special education of all children in need of special assistance and prolonged assistance who reside within the district. This fund is financed by grants and property taxes. This is a major fund.

Proprietary Funds:

Enterprise Funds - enterprise funds are used to accounted for operations that (a) are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Food Service Fund - A fund used to record financial transactions related to food service operations. This fund is financed by user charges and grants. This is a major fund.

Internal Service Funds - Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies or to other governments, on a cost-reimbursement basis. Internal service funds are never considered to be major funds. The unemployment fund is the only internal service fund maintained by the school district.

The proprietary funds do not apply any FASB Statements and Interpretations issued after November 30, 1989.

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary Funds:

Fiduciary funds are never considered to be major funds.

Private-purpose Trust Funds - Private-purpose trust funds are used to account for all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

The school district maintains only the following private-purpose trust funds:

Scholarship trusts (four separate trusts established by donors to provide for college scholarships to graduating students).

Agency Funds - Agency funds are used to account for resources held by the School District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations.

The district maintains agency funds for the following purposes:

Class clubs

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe 'how' transactions are recorded within the various financial statements. Basis of accounting refers to 'when' revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental a fund types, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary funds.

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, governmental, business-type and component unit activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the Kimball School District No. 7-2, the length of that cycle is 60 days. The revenues which are accrued at June 30, 2009 are miscellaneous revenues and reimbursement grants.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principle and interest on general long-term debt which are recognized when due.

All proprietary funds and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

The business-type activities and enterprise funds do not apply any FASB Statements and Interpretations issued after November 30, 1989.

d. Interfund Eliminations and Reclassifications:

Government-wide Financial Statements:

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.
2. In order to minimize the doubling-up effect on internal service fund activity, certain "centralized expenses" including unemployment costs, are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department or fund. When expenses are charged, in this manner, expense reductions occur in the Internal Service Funds, so that expenses are reported only in the function to which they relate.

Fund Financial Statements:

Noncurrent portions of long-term interfund receivables (reported in "Advance to" asset accounts) are equally offset by a fund balance reserve account which indicates that they do not constitute "available spendable resources" since they are not a component of net current assets. Current portions of interfund receivables (reported in "Due from" asset accounts) are considered "available spendable resources".

e. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in government-wide or fund financial statements.

Government-Wide Statements: All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

Interest costs incurred during construction of general capital assets are not capitalized along with other capital asset costs.

The total June 30, 2009 balance of capital assets for governmental activities includes approximately two percent for which the costs were determined by estimates of the original costs. These estimated original costs were established by appraisals or deflated current replacement cost. The total June 30, 2009 balance of capital assets for business-type activities are all valued at original cost.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with net capital assets reflected in the Statement of Net Assets. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	All	-	-
Buildings	\$25,000	Straight-line	15-50 yrs
Machinery and Equipment:			
General	\$ 5,000	Straight-line	4-20 yrs
Food Service	\$ 500	Straight-line	12 yrs

Land, an inexhaustible capital asset, is not depreciated.

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

f. Long-term Liabilities:

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consists primarily of compensated absences, loans, and capital outlay certificates payable.

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In the fund financial statements, the debt proceeds are reported as revenues (other financing sources) and payment of principle and interest reported as expenditures when the become due. The accounting for proprietary fund long-term is on the accrual basis, the same in the fund statement as it is in the government-wide statements.

All interest expense on long-term debt is reported as a separate line on the "Statement of Activities."

g. Program Revenues:

In the Government-wide Statement of Activities, reported program revenues derive directly from the program itself or from parties other than the District's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services - These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for the acquisition of capital assets for use in a particular program.

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Activities, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

i. Cash and Cash Equivalents:

The school district pools its cash resources for depositing and investing purposes. Accordingly, the enterprise fund has access to its cash resources on demand. Accordingly, all reported enterprise fund deposit and investment balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows.

j. Equity Classifications:

Government-wide Statements:

Equity is classified as net assets and is displayed in three components

1. Invested in capital assets, net of related debt - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other acquisition, construction, or improvement of those assets.

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Restricted net assets - Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Reserved" and "Unreserved" components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net assets held in trust for other purposes.

k. Application of Net Assets:

It is the District's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK:

The School District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK (continued):

Deposits - The School District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments - in General, SDCL 4-5-6 permits school funds to be invested in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

No investments were held as of June 30, 2009 nor during the year then ended.

Custodial Credit Risk - Deposits -The risk that, in the event of a depository failure, the School District's deposits may not be returned to it. The School District Does not have a deposit policy for custodial credit risk.

Interest Rate Risk - The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK (continued):

Credit Risk - State law limits eligible investments for the School District, as discussed above. The School District has no investment policy that would further limit its investment choices.

Concentration of Credit Risk - The School District places no limit on the amount that may be invested in any one issuer.

Assignment of Investment Income - State law allows income from deposits and investment to be credited to either the General Fund or the fund making the investment. The School District's policy is to credit all income from investments to the fund making the investment.

3. RECEIVABLES AND PAYABLES:

Neither receivables nor payables are aggregated in these financial statements. The District expects all receivables to be collected within one year. No allowances for estimated un-collectibles have been established.

4. INVENTORY:

Inventory is stated at the lower of cost or market. The cost valuation method is first-in, first-out. Donated commodities are valued at estimated market value based on the USDA price list at date of receipt.

In the Government-wide financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed.

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

4. INVENTORY (continued):

In the fund financial statements, inventories in the General Fund and Special Revenue Funds consist of expendable supplies held for consumption. Inventories are recorded using the "consumption method" in the funds statement, the same manner as in the government-wide statements described above. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

5. PROPERTY TAXES:

Property taxes are levied on or before each October 1, attached as an enforceable lien on property as of the following January 1, and are payable in two installments on or before the following April 30 and October 31. The county bills and collects the School District's taxes and remits them to the School District.

School District property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Revenue related to current year property taxes receivable which is not intended to be used to finance the current year's appropriations and therefore are not susceptible to accrual has been reported as deferred revenue in both the fund financial statements and the government-wide financial statements. Additionally, in the fund financial statements, revenue from property taxes may be limited by any amount not collected during the current fiscal period or within the "availability period".

6. CHANGES IN CAPITAL ASSETS:

A summary of the changes in capital assets for the year ended June 30, 2009 is as follows:

Primary Government

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

6. CHANGES IN CAPITAL ASSETS (continued)

	Balance <u>7/01/08</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>06/30/09</u>
Government Activities:				
Capital Assets not being depreciated				
Land	\$ 21,825	\$ -	\$ -	\$ 21,825
Capital Assets being depreciated				
Buildings	3,746,392	85,020	-	3,831,412
Improvements	214,304	-	-	214,304
Machinery and Equipment	<u>821,761</u>	<u>178,745</u>	<u>37,286</u>	<u>963,220</u>
Total	<u>\$ 4,782,457</u>	<u>\$ 263,765</u>	<u>\$ 37,286</u>	<u>\$ 5,008,936</u>
Less accumulated depreciation:				
Buildings	505,353	51,069	-	556,422
Improvements	94,065	14,365	-	108,430
Machinery and Equipment	<u>337,776</u>	<u>91,427</u>	<u>37,286</u>	<u>391,917</u>
Total	<u>937,194</u>	<u>156,861</u>	<u>37,286</u>	<u>1,056,769</u>
Total capital assets being depreciated, net:	<u>3,845,263</u>	<u>106,904</u>	<u>-</u>	<u>3,952,167</u>
Governmental activity capital assets, net:	<u>\$ 3,867,088</u>	<u>\$ 106,904</u>	<u>\$ -</u>	<u>\$ 3,973,992</u>
Business-type activities:				
Capital assets being depreciated:				
Machinery and Equipment	\$ 37,586	\$ -	\$ -	\$ 37,586

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

6. CHANGES IN CAPITAL ASSETS (continued)

	Balance <u>7/01/08</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>06/30/09</u>
Less accumulated depreciation:	\$ 18,403	\$ 2,040	\$ -	\$ 20,443
Business-type activity capital assets, net	\$ 19,183	\$ (2,040)	\$ -	\$ 17,143

Depreciation expense was charged to functions as follows:

Governmental activities	
Instruction	\$ 97,254
Support Services	36,078
Cocurricular Activities	<u>23,529</u>
	<u>\$ 156,861</u>
Business-type activities:	
Food Service	<u>\$ 2,040</u>

7. LONG-TERM LIABILITIES:

A summary of changes in long-term liabilities follows:

	Capital Outlay Certifi- <u>cates</u>	<u>QZAB's</u>	<u>Loan</u>	Compen- sated <u>Absences</u>	<u>Total</u>
Debt Payable, June 30, 2008	\$ 620,000	\$713,621	\$172,963	\$20,607	\$1,527,191
Additions	-	-	-	12,241	12,241
Deletions	<u>(295,000)</u>	<u>(69,819)</u>	<u>(31,652)</u>	<u>(10,300)</u>	<u>(406,771)</u>
Debt Payable, June 30, 2009	<u>\$ 325,000</u>	<u>\$643,802</u>	<u>\$141,311</u>	<u>\$22,548</u>	<u>\$1,132,661</u>

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

7. LONG-TERM LIABILITIES: (continued)

	Capital Outlay Certifi- cates	QZAB's	Loans	Compen- sated Absences	Total
Due within one year	<u>\$ 60,000</u>	<u>\$ 69,819</u>	<u>\$ 33,234</u>	<u>\$11,274</u>	<u>\$ 174,327</u>

Debt payable at June 30, 2009 comprised of the following:

Capital Outlay Certificates:

Series 2002 Capital Outlay Certificates, interest rates of 4.3% to 5% (depending on length to maturity of the individual certificate), maturing March 1, 2017. The are being repaid by the Capital Outlay Fund. \$ 325,000

Qualified Zone Academy Bonds (QZAB's):

Zero interest "Qualified Zone Academy Bonds". Interest is not imputed because this is the customary cash lending procedure of the financial institution for this type of bonds. The bonds are due in annual payments \$13,819 until 2021. The payments are being made from the Capital Outlay Fund. 165,820

Zero interest "Qualified Zone Academy Bonds". Interest is not imputed because this is the customary cash lending procedure of the financial institution for this type of bonds. The bonds are due in annual payments \$19,000 until December 31, 2015. The payments are being made from the Capital Outlay Fund. 132,941

Zero interest "Qualified Zone Academy Bonds". Interest is not imputed because this is the customary cash lending procedure of the financial institution for this type of bonds. The bonds are due in annual payments of \$22,008 until November 12, 2013. The payments are being made from the Capital Outlay Fund. 110,041

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

7. LONG-TERM LIABILITIES: (continued)

1.5% interest "Qualified Zone Academy Bonds".
The bonds are due in annual payments of \$15,000
plus interest until 2018 and \$20,000 plus
interest annually until 2023. The payments are
being made from the Capital Outlay Fund. 235,000

Total QZAB's: \$ 643,802

Rural Economic Development Loan, sponsored
by the U.S. Department of Agriculture, due
in annual installments of \$40,300. This is
an interest free loan, but is recorded using
an imputed interest rate of 5%. This loan
is being paid by the Capital Outlay Fund.
Maturity is 2013. \$ 141,311

Compensated Absences:
Vacation and sick leave \$ 22,548

This liability is paid from the General Fund.

The annual requirements to amortize all debt outstanding as
of June 30, 2009 excluding compensated absences:

Annual Requirements to Amortize Long-term Debt
June 30, 2009

Year Ended June 30,	Capital Outlay Certificates		QZAB's		Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 60,000	\$ 14,395	\$ 69,819	\$ 3,525	\$ 33,234	\$ 7,066
2011	60,000	11,605	69,819	3,330	34,896	5,404
2012	65,000	9,025	69,819	3,075	36,641	3,695
2013	70,000	6,230	69,819	2,850	36,540	3,760
2014	70,000	3,115	69,819	2,625	-	-
2015-2019	-	-	187,076	9,750	-	-
2020-2024	-	-	107,631	3,000	-	-
Total	<u>\$325,000</u>	<u>\$ 44,370</u>	<u>\$643,802</u>	<u>\$28,121</u>	<u>\$141,311</u>	<u>\$ 19,889</u>

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

7. LONG-TERM LIABILITIES: (continued)

<u>Year Ended</u> <u>June 30,</u>	<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 163,053	\$ 24,986
2011	164,715	20,309
2012	171,460	15,759
2013	176,359	12,840
2014	139,819	5,740
2015-2019	187,076	9,750
2020-2024	<u>107,631</u>	<u>3,000</u>
Totals	<u>\$1,110,113</u>	<u>\$ 92,384</u>

8. RESTRICTED NET ASSETS

The following table shows the net assets restricted for other purposes as shown on the Statement of Net Assets:

<u>Fund</u>	<u>Restricted By</u>	<u>Amount</u>
Food Service Fund	Law	\$ 25,502
Capital Outlay Fund	Law	452,283
Special Education Fund	Law	<u>74,182</u>
Total Restricted Net Assets:		<u>\$ 551,967</u>

9. RETIREMENT PLAN

All employees, except for classified employees, participate in the South Dakota Retirement System (SDRS), a cost sharing, and multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

9. RETIREMENT PLAN (continued)

statements and required supplementary information. That report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution.

State statute also required the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The District's share of contributions to the SDRS for the fiscal years ended June 30, 2009, 2008, and 2007 were \$80,323, \$80,372, and \$77,010 respectively, equal to the required contributions each year.

10. JOINT VENTURES

The school district participates in the Mid-central Cooperative, a cooperative service unit (co-op) formed for the purpose of providing special education and other services to the member school districts. The members of the co-op and their relative percentage of participation are:

Armour School District	6.88%
Burke School District	7.33%
Colome School District	5.11%
Corsica School District	8.35%
Gregory School District	13.52%
Kimball School District	8.26%
Mt. Vernon School District	8.14%
Plankinton School District	5.62%
Platte School District	16.14%
Stickney School District	5.08%
Wessington Springs School District	10.25%
White Lake School District	5.32%
	<u>100.00%</u>

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

10. JOINT VENTURES (continued)

The co-op's governing board is composed of one representative from each member school district who is a school board member. The board is responsible for adopting the co-op's budget and setting service fees at a level adequate to fund the adopted budget.

The school district retains no equity in the net assets of the co-op, but does have a responsibility to fund deficits of the co-op in proportion to the relative participation described above.

Separate financial statements for this joint venture are available from the Mid-central Cooperative, Platte, South Dakota.

As of June 30, 2008, this joint venture had total net assets of \$3,662,372 and long-term debt of \$22,336.

11. RISK MANAGEMENT

The school district is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2009, the school district managed its risks as follows:

Employee Health Insurance:

The school district purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the coverage during the past three years.

Liability Insurance:

The school district purchases liability insurance for risks related to torts; theft of or damage to property, and errors and omission of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

11. RISK MANAGEMENT (continued)

Unemployment Benefits:

The School has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

The School has equity in the Unemployment Fund in the amount of \$4,244 for the payment of future unemployment benefits.

During the year ended June 30, 2009, no claims were paid for unemployment benefits. At June 30, 2009, no claims had been filed and were outstanding. It is not anticipated that any additional claims for unemployment benefits will be filed in the next fiscal year.

Workmen's Compensation Insurance:

The School District participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota Workers' Compensation Fund Pool which provided workers' compensation insurance coverage for participating members of the pool. The objective of the Fund is to formulate, develop and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The School District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The School District pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. The School District may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

11. RISK MANAGEMENT (continued)

judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs. The pool provides loss coverage to all participants through pool retained risk retention and through insurance coverage purchased by the pool in excess of the retained risk. The pool pays the first \$500,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$1,000,000 per individual per incident.

The School District does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

12. CORRECTION TO BEGINNING FUND BALANCE:

The General Fund June 30, 2008 fund balance was corrected by \$25,493 for an unrecorded receivable due from the State of South Dakota for fiscal year 2008 reimbursement grants.

KIMBALL SCHOOL DISTRICT NO. 7-2
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Federal CFDA Number	Pass- through Grantor's Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
Pass-through the S.D. Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program (Note 2)	10.553	70020	\$28,917
National School Lunch Program (Note 2)	10.555	70020	85,168
			<hr/>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			114,085
			<hr/>
U.S. DEPARTMENT OF EDUCATION:			
Pass-through the S.D. Department of Education:			
Title I Programs-Local Education Agencies (Note 3)	84.010	T1-09-13	122,267
Safe and Drug Free School and Communities State Grants	84.186	N/A	3,066
State Grants for Innovative Programs	84.298	N/A	234
Education Technology State Grants	84.318	N/A	2,113
Reading First - State Grants (Note 3)	84.357	TIRF-09-13	225,239
Improving Teacher Quality State Grants	84.367	N/A	32,783
ARRA-State Fiscal Stabilization Funds	84.394	N/A	65,312
Special Education Cluster (Note 2)			
Special Education Grants to States	84.027	N/A	61,728
Special Education-Preschool Grants	84.173	N/A	1,209
			<hr/>
TOTAL U.S. DEPARTMENT OF EDUCATION			513,951
			<hr/>
GRAND TOTAL			\$628,036
			<hr/> <hr/>

KIMBALL SCHOOL DISTRICT NO. 7-2
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

- Note 1: The accompany Schedule of Federal Awards includes the federal grant activity of the School and is presented on the modified accrual basis of accounting unless otherwise noted. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
- Note 2: Federal reimbursements are not based upon specific expenditures. Therefore, the amounts reported here represent cash received rather than federal expenditures.
- Note 3: This represents a major federal financial assistance program.

KIMBALL SCHOOL DISTRICT NO. 7-2
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2009

1. SUMMARY OF AUDITOR'S RESULTS

- a. An unqualified opinion was issued on the financial statements.
- b. Two significant deficiencies and material weaknesses were disclosed by the audit. See Section 2, Finding Number 2009-01 and 2009-03.
- c. One instance of noncompliance was noted by the audit. See Section 2, Finding Number 2009-03.
- d. A significant deficiency and material weakness in internal control over major programs was noted. See Section 3, Finding Number 2009-02 below.
- e. An unqualified report was issued on compliance for major programs.
- f. Audit findings required to be reported under Section .510 (a) of OMB Circular A-133 are listed below in Section 3, Finding Number 2009-01 and 2009-03.
- g. Programs treated as major programs for this audit were:

<u>Name</u>	<u>CFDA Number</u>
Title I Programs-	
Local Education Agencies	84.010
Reading First-	
State Grants	84.357

- h. The dollar threshold used to distinguish between Type A and Type B Programs was \$300,000.
- i. The Entity was not qualified as a low risk auditee as described in Section .530 of OMB Circular A-133.

KIMBALL SCHOOL DISTRICT NO. 7-2
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2009

2. FINANCIAL STATEMENT FINDINGS

FINDING NUMBER 2009-01:

A significant deficiency and material weakness is present due to a lack of segregation of duties in revenue, expenditure and payroll functions.

CRITERIA:

To obtain adequate internal control, the duties of collecting and handling of cash must be segregated from the recording of cash transactions. The duties of preparing, mailing or otherwise distributing checks should be segregated from the recording process. Various other accounting functions should be performed by different people to insure a proper segregation of duties.

POSSIBLE ASSERTED EFFECT:

Inaccurate financial statements and/or misappropriations of funds could result from a lack of segregation of duties.

RECOMMENDATION:

Management should remain aware of this situation and attempt to provide compensating controls wherever and whenever possible and practical.

SCHOOL DISTRICT RESPONSE:

The School District agrees with this comment. The Superintendent and School Board are responsible for the corrective action plan on this comment. This comment is a result of the size of the Kimball School District No. 7-2 which precludes staffing at a level sufficient to provide an ideal environment for internal controls. Kimball School District has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for revenue, expenditures and payroll. Kimball School District is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical. However, this lack of segregation of duties regarding the revenues, expenditures and payroll function continues to exist.

KIMBALL SCHOOL DISTRICT NO. 7-2
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2009

FINDING NUMBER 2009-03:

The Capital Outlay Fund budgets were overspent in 2009 by \$97,322.

CRITERIA:

Sound internal controls include close monitoring of spending as compared to adopted budgets. SDCL 13-11-2 forbids the School District to exceed the budget of each fund. The School District does not have "spending authority" to expend more than the budgeted amounts, unless the budgets are properly supplemented.

POSSIBLE ASSERTED EFFECT:

Violations of state budget regulations have occurred and a major internal control (the budget) has been overridden.

RECOMMENDATIONS:

Spending should be within the set budgets required by SDCL 13-11-2. Procedures need to be put in place to properly monitor spending levels to avoid exceeding budgetary limits on a fund basis.

SCHOOL DISTRICT RESPONSE:

The School District officials agree with this comment. The Business Manager and Superintendent are responsible for the corrective action plan of this comment. Closer monitoring of budget versus actual expenditures and prompt supplemental budgets will be the corrective action plan for this situation.

3. **FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

FINDING NUMBER 2009-02:

A material weakness in internal control over federal programs exists due to a lack of segregation of duties. See Finding Number 2009-01 above for further explanation.

Major Federal Programs Affected:

Title I Programs-

Local Educational Agencies CFDA No. 84.010

Reading First-State Grants CFDA No. 84.357

KIMBALL SCHOOL DISTRICT NO. 7-2
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2009

POSSIBLE ASSERTED EFFECT:

Inaccurate financial statements and/or misappropriations of funds could result from a lack of segregation of duties.

RECOMMENDATION:

Management should remain aware of this situation and attempt to provide compensating controls wherever and whenever possible and practical.

SCHOOL DISTRICT RESPONSE:

The School District agrees with this comment. The Superintendent and School Board are responsible for the corrective action plan on this comment. This comment is a result of the size of the Kimball School District No. 7-2 which precludes staffing at a level sufficient to provide an ideal environment for internal controls. Kimball School District has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for revenue, expenditures and payroll. Kimball School District is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical. However, this lack of segregation of duties regarding the revenues, expenditures and payroll function continues to exist.

**KIMBALL SCHOOL DISTRICT NO. 7-2
SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2009**

FINDING NO. 2007-01 and 2008-01:

A material weakness was reported due to a lack of segregation of duties. This condition was first reported by this auditor in 1998.

Status as of June 30, 2009:

The condition noted in prior audits is still applicable.